

Message Text

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PAGE 01 BONN 20747 091821Z

20

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
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INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY BERN

AMEMBASSY OTTAWA

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

USMISSION USUN NEW YORK

C O N F I D E N T I A L BONN 20747

E.O. 11652: GDS

TAGS: EAID, GW, DAC

SUBJ: FRG AID BUDGET AND CIEC

REF: (A) OECD PARIS 34825; (B) BONN 19877

1. BEGIN SUMMARY: ECONCOUNSELOR CALLED ON MOLTRECHT
OF FRG ECONCOOPMIN WHO IS RESPONSIBLE FOR GERMAN
PARTICIPATION IN MULTILATERAL LENDING INSTITUTIONS AND
WHO REPRESENTED THE FRG AT THE DAC REVIEW OF GERMANY.
MOLTRECHT OUTLINED COOPMIN MULTILATERAL AID PLANS IN
ABSENCE OF A COMPLETED 1977 AID BUDGET. HE ALSO
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PAGE 02 BONN 20747 091821Z

ADVOCATED A DEBT "SOLUTION" TO CIEC WHICH, HOWEVER,

DOES NOT HAVE SUPPORT FROM THE FINANCE MIN AND
CHANCELLOR SCHMIDT. END SUMMARY.

2. GIVEN THE DROP IN THE PERCENT OF GNP DEVOTED TO
AID, FROM 0.4 (1975) TO 0.31 (1976), MOLTRECHT DID
NOT ENJOY DEFENDING GERMAN AID PERFORMANCE AT THE DAC
REVIEW (REFTEL A). RATHER HE ATTEMPTED TO EXPLAIN THE
FACTORS WHICH WERE CAUSING THE DROP. THE DONOR NATION
CRITICISMS DURING THE DAC EXAM OF GERMAN AID VOLUME
WERE REPORTED IN A DIE WELT" ARTICLE OF DECEMBER 8.
THE FOREIGN CRITICISMS WERE CHARACTERIZED AS "UNUSUAL
IN BOTH STRENGTH AND FORM". THE FACT THAT THE GERMAN
DELEGATION GAVE NO PUBLIC COMMUNIQUE, AS IS NORMAL,
ALSO WAS MENTIONED IN THE ARTICLE.

3. SINCE THE FEDERAL BUDGET WAS STILL BEING ASSEMBLED,
MOLTRECHT COULD ONLY HOPE FOR AN OVER-PROPORTIONAL
INCREASE BEYOND THE OVERALL 5.5 PERCENT INCREASE
IN THE BUDGET. HE ALSO MENTIONED THAT THE USE OF
PROMISSORY NOTES FOR PAYMENTS TO MULTILATERAL AID
INSTITUTIONS WILL BECOME STANDARD POLICY FOR ALL
GERMAN CONTRIBUTIONS IN THE FUTURE. THIS WILL SAVE
SOME MONEY FOR IMMEDIATE DISBURSEMENTS. MOLTRECHT
ALSO ESTIMATED THAT FRG -COULD PROBABLY MANAGE A 15
PERCENT INCREASE IN GERMAN UNDP CONTRIBUTIONS AND A
10 PERCENT INCREASE FOR UNFPA. HE CHARACTERIZED
THE LARGE BACKUP OF COMMITMENTS NOT YET DISBURSED, THE
"PIPELINE", AS A STRUCTURAL PROBLEM RATHER THAN A
DELIBERATE ATTEMPT TO SLOW DOWN DISBURSEMENTS.

4. MOLTRECHT CONCENTRATED MUCH OF THE DISCUSSION ON
A DEBT RESCHEDULING SOLUTION TO CIEC. HIS RATIONALE
WAS THE FOLLOWING: THE DEVELOPED COUNTRIES HAD
ALREADY DONE EVERYTHING POSSIBLE IN THE MONETARY AND
TRADE AREAS, AND THE COMMON FUND WOULD NOT BE "RIPE"
FOR DISCUSSION UNTIL A NUMBER OF INDIVIDUAL COMMODITY
AGREEMENTS HAD BEEN CREATED. THUS THE ONLY AREA
LEFT WITH WHICH WE CAN SAVE CIEC IS DEBT. RATHER THAN
UNIFORM GLOBAL RESCHEDULING, THE DEVELOPED COUNTRIES
SHOULD MAKE ADDITIONAL IMMEDIATE ODA CONTRIBUTIONS TO
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PAGE 03 BONN 20747 091821Z

THE MSA'S AND LLDC'S. THIS ADDITIONAL ODA WOULD TAKE
THE FORM OF COMMODITY AID, FOR EXAMPLE, WHICH COULD BE
DISBURSED QUICKLY. THE RECEIVING COUNTRY COULD USE
THESE FUNDS TO OFFSET HARD CURRENCY EXPENSES AND THUS
MEET REGULAR DEBT PAYMENTS. TACTICALLY THIS WOULD BE
THE BEST WAY TO BEGIN. ACCORDING TO PROPOSALS MADE TO
THE EC THE FRG SHARE WOULD BE DM 600 MILLION, 10 PERCENT
OF THE TOTAL DEVELOPED COUNTRY CONTRIBUTION. SUCH A

LARGE "FUND" WOULD APPEAL TO MORE LDC'S THAN CONCESSIONS
ON COMMODITIES AND THUS COULD SOLVE THE CIEC PROBLEM.

5. COMMENT: CLAIMING THE SUPPORT OF FONMIN AND ECONMIN
OFFICIALS, MOLTRECHT ADMITTED THAT THE FINANCE MINISTRY
HAD RESERVATIONS ON THIS SCHEME. THE EMBASSY UNDER-
STANDS, HOWEVER, THAT CHANCELLOR SCHMIDT ALSO DOES NOT
SUPPORT DEBT CONCESSIONS. REFTEL B REPORTS THAT
ANOTHER KNOWLEDGEABLE COOPMIN OFFICIAL BELIEVES THAT
THE DEBT "SOLUTION" WILL NOT FLY AS AN OFFICIAL FRG
POSITION.
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